National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

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Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

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Independent Auditors' Report

To the Board of Directors of
National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations
Arlington, Virginia

We have audited the accompanying consolidated financial statements of the **National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations** (the Association), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the **National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations** as of December 31, 2017 and 2016, and the changes in their members' equity and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 5, 2018 on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 5, 2018

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

Consolidated Balance Sheets

December 31,	**2017**	2016
Assets		
Cash and cash equivalents	**$ 29,537,274**	$ 41,536,287
Accounts receivable, net	**23,657,379**	20,660,515
Receivables from trusts	**26,478,696**	17,704,141
Investments	**12,190,630**	9,963,563
Other assets	**14,725,248**	12,463,510
Deferred compensation fund	**12,260,041**	10,941,881
Property and equipment, net	**90,692,186**	89,294,447
Total assets	**$ 209,541,454**	$ 202,564,344
Liabilities and Members' Equity		
Liabilities		
Accounts payable and accrued liabilities	**$ 15,360,852**	$ 18,126,170
Accrued employee expenses	**6,465,943**	6,752,554
HRA Plan payable	**7,199,848**	7,199,848
Deferred revenue	**61,504,170**	51,309,719
Cooperative Research Network Fund	**4,158,378**	2,868,237
Deferred compensation fund	**12,260,041**	10,941,881
Other liabilities	**1,722,033**	2,166,585
ELCO life insurance reserves	**226,599**	251,276
Postretirement benefit obligations other than pensions	**12,432,612**	14,284,731
Total liabilities	**121,330,476**	113,901,001
Commitments and contingencies	**-**	-
Members' equity		
General fund	**80,927,381**	80,927,381
Political Advocacy, Communications and Education Account Fund	**7,283,597**	7,735,962
Total members' equity	**88,210,978**	88,663,343
Total liabilities and members' equity	**$ 209,541,454**	$ 202,564,344

See accompanying notes to consolidated financial statements.

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

Consolidated Statement of Activities

	General Fund							
Year ended December 31, 2017	**General Membership**	**Fee-for-Service**	**Cooperative Research Network**	**Pension & Welfare**	**Shared Services**	**Total General Fund**	**Political Advocacy, Communications and Education Account Fund**	**Total**
Revenue								
Membership dues	$ 30,356,326	$ -	$ 3,684,123	$ -	$ -	$ 34,040,449	$ -	**$ 34,040,449**
Plan paid administration fees	-	-	-	20,291,012	-	20,291,012	-	**20,291,012**
Employer paid plan administration fees	-	-	-	87,324,605	-	87,324,605	-	**87,324,605**
Money management fees	-	20,803,486	-	-	-	20,803,486	-	**20,803,486**
Education & meetings	29,252	15,633,042	-	-	-	15,662,294	-	**15,662,294**
International programs	-	13,650,095	-	-	-	13,650,095	-	**13,650,095**
Rental income	-	13,588,245	-	-	-	13,588,245	-	**13,588,245**
Cost reimbursements	2,025,430	-	4,255,844	-	-	6,281,274	-	**6,281,274**
Consulting	-	3,645,151	-	-	-	3,645,151	-	**3,645,151**
Publications	450,683	2,773,682	-	-	-	3,224,365	-	**3,224,365**
Contributions	-	2,162,267	131,849	-	-	2,294,116	-	**2,294,116**
Third party claims administration	-	761,161	-	-	-	761,161	-	**761,161**
Other	1,931,526	5,532,250	18,074	205,337	-	7,687,187	-	**7,687,187**
Total revenue	**34,793,218**	**78,549,379**	**8,089,890**	**107,820,954**	**-**	**229,253,441**	**-**	**229,253,441**
Expenses								
Direct Expenses								
Personnel costs	20,201,418	23,876,918	4,419,361	61,772,203	32,936,776	143,206,676	-	**143,206,676**
Professional fees	6,436,534	12,727,845	977,316	2,689,825	2,685,660	25,517,180	421,652	**25,938,832**
Travel	1,452,711	3,221,012	455,607	1,975,966	2,135,649	9,240,945	-	**9,240,945**
Meetings	1,824,193	4,749,282	134,147	967,719	558,482	8,233,823	-	**8,233,823**
Depreciation and amortization	681,612	3,462,706	29,026	1,103,881	2,867,051	8,144,276	-	**8,144,276**
Insurance, interest & taxes	336,363	5,461,894	13,812	161,772	375,573	6,349,414	-	**6,349,414**
Computer & electronic services	824,822	996,863	12,205	486,905	2,276,724	4,597,519	20,000	**4,617,519**
Software & equipment maintenance	53,889	126,233	5,373	958,908	2,777,100	3,921,503	-	**3,921,503**
Supplies & materials	243,474	2,557,990	227,184	357,049	407,180	3,792,877	-	**3,792,877**
Utilities & building operations	67,000	3,259,989	-	22,386	28,558	3,377,933	-	**3,377,933**
Professional dues & contributions	1,259,574	214,916	254,144	146,672	495,931	2,371,237	-	**2,371,237**
Communication	201,822	394,756	19,366	822,987	494,170	1,933,101	-	**1,933,101**
Printing & artwork	168,766	479,232	9,407	400,889	50,904	1,109,198	745	**1,109,943**
Other	370,962	3,476,068	76,456	954,852	86,604	4,964,942	9,968	**4,974,910**
Total direct expenses	**34,123,141**	**65,005,704**	**6,633,404**	**72,822,014**	**48,176,362**	**226,760,625**	**452,365**	**227,212,990**
Shared Services								
Information technology	3,779,721	1,547,812	223,299	18,635,572	(24,186,404)	-	-	**-**
Headquarters rent	1,535,074	(7,294,856)	222,563	3,491,210	2,046,009	-	-	**-**
General & administrative	9,044,821	6,010,605	971,423	9,673,536	(25,700,385)	-	-	**-**
Plan investment support	-	(3,174,977)	-	3,174,977	-	-	-	**-**
Website	-	272,736	39,201	23,645	(335,582)	-	-	**-**
Total shared services	**14,359,616**	**(2,638,680)**	**1,456,486**	**34,998,940**	**(48,176,362)**	**-**	**-**	**-**
Total expenses	**48,482,757**	**62,367,024**	**8,089,890**	**107,820,954**	**-**	**226,760,625**	**452,365**	**227,212,990**
Change in members' equity before RS Plan Voluntary Contribution Acceleration Program (VCAP) payment	**(13,689,539)**	**16,182,355**	**-**	**-**	**-**	**2,492,816**	**(452,365)**	**2,040,451**
RS Plan VCAP payment								
Contribution payment	2,218,911	273,905	-	4,290,489	-	6,783,305	-	6,783,305
Cost reimbursement	-	-	-	(4,290,489)	-	(4,290,489)	-	(4,290,489)
Total RS Plan VCAP payment	**2,218,911**	**273,905**	**-**	**-**	**-**	**2,492,816**	**-**	**2,492,816**
Change in members' equity	**$ (15,908,450)**	**$ 15,908,450**	**$ -**	**$ -**	**$ -**	**-**	**(452,365)**	**(452,365)**
Members' equity								
Beginning						80,927,381	7,735,962	**88,663,343**
Ending						$ 80,927,381	$ 7,283,597	**$ 88,210,978**

See accompanying notes to consolidated financial statements.

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

Consolidated Statement of Activities

	General Fund							
Year ended December 31, 2016	**General Membership**	**Fee-for-Service**	**Cooperative Research Network**	**Pension & Welfare**	**Shared Services**	**Total General Fund**	**Political Advocacy, Communications and Education Account Fund**	**Total**
Revenue								
Membership dues	$ 30,014,109	$ -	$ 4,053,968	$ -	$ -	$ 34,068,077	$ -	**$ 34,068,077**
Plan paid administration fees	-	-	-	20,288,304	-	20,288,304	-	**20,288,304**
Employer paid plan administration fees	-	-	-	85,179,891	-	85,179,891	-	**85,179,891**
Money management fees	-	19,192,817	-	-	-	19,192,817	-	**19,192,817**
Education & meetings	14,426	16,254,709	-	-	-	16,269,135	-	**16,269,135**
International programs	-	14,911,581	-	-	-	14,911,581	-	**14,911,581**
Rental income	-	13,906,734	-	-	-	13,906,734	-	**13,906,734**
Cost reimbursements	1,754,935	8,168	4,170,270	-	-	5,933,373	-	**5,933,373**
Consulting	-	3,619,512	-	-	-	3,619,512	-	**3,619,512**
Publications	362,984	2,620,481	-	-	-	2,983,465	-	**2,983,465**
Contributions	-	1,761,958	400,777	-	-	2,162,735	-	**2,162,735**
Third party claims administration	-	772,889	-	-	-	772,889	-	**772,889**
Other	1,994,728	5,062,493	15,992	171,961	-	7,245,174	-	**7,245,174**
Total revenue	**34,141,182**	**78,111,342**	**8,641,007**	**105,640,156**	**-**	**226,533,687**	**-**	**226,533,687**
Expenses								
Direct Expenses								
Personnel costs	20,867,549	24,471,866	3,110,094	59,373,928	31,176,859	139,000,296	-	**139,000,296**
Professional fees	5,317,186	11,517,052	2,309,472	2,024,325	3,338,682	24,506,717	1,398,475	**25,905,192**
Travel	1,429,446	2,957,476	201,176	2,011,679	2,210,609	8,810,386	77,233	**8,887,619**
Meetings	1,569,470	4,892,221	82,079	857,760	547,918	7,949,448	51,168	**8,000,616**
Depreciation and amortization	509,181	3,218,400	27,779	1,008,097	3,319,028	8,082,485	-	**8,082,485**
Insurance, interest & taxes	312,092	5,533,949	6,739	159,421	361,160	6,373,361	-	**6,373,361**
Computer & electronic services	911,139	944,756	16,552	279,242	1,950,970	4,102,659	12,500	**4,115,159**
Software & equipment maintenance	40,925	158,470	15,001	1,068,225	2,547,825	3,830,446	-	**3,830,446**
Supplies & materials	266,486	2,905,769	427,477	490,113	574,143	4,663,988	20,643	**4,684,631**
Utilities & building operations	72,013	3,083,601	560	23,877	50,572	3,230,623	-	**3,230,623**
Professional dues & contributions	794,671	81,953	73,725	149,665	597,085	1,697,099	-	**1,697,099**
Communication	197,822	420,474	15,931	874,774	563,839	2,072,840	-	**2,072,840**
Printing & artwork	275,586	617,814	22,192	398,164	56,609	1,370,365	-	**1,370,365**
Other	142,265	4,680,641	1,283,472	1,054,388	484,273	7,645,039	66,425	**7,711,464**
Total direct expenses	**32,705,831**	**65,484,442**	**7,592,249**	**69,773,658**	**47,779,572**	**223,335,752**	**1,626,444**	**224,962,196**
Shared Services								
Information technology	3,396,351	1,683,493	139,011	19,303,847	(24,522,702)	-	-	**-**
Headquarters rent	1,578,694	(7,348,418)	187,560	3,532,967	2,049,197	-	-	**-**
General & administrative	9,570,521	5,116,779	677,131	9,468,099	(24,832,530)	-	-	**-**
Plan investment support	-	(3,484,124)	-	3,484,124	-	-	-	**-**
Website	-	351,020	45,056	77,461	(473,537)	-	-	**-**
Total shared services	**14,545,566**	**(3,681,250)**	**1,048,758**	**35,866,498**	**(47,779,572)**	**-**	**-**	**-**
Total expenses	**47,251,397**	**61,803,192**	**8,641,007**	**105,640,156**	**-**	**223,335,752**	**1,626,444**	**224,962,196**
Change in members' equity	**$ (13,110,215)**	**$ 16,308,150**	**$ -**	**$ -**	**$ -**	**3,197,935**	**(1,626,444)**	**1,571,491**
Members' equity								
Beginning						80,818,382	6,273,470	**87,091,852**
Transfer to Political Advocacy, Communications and Education Account Fund						(3,088,936)	3,088,936	**-**
Ending						$ 80,927,381	$ 7,735,962	**$ 88,663,343**

See accompanying notes to consolidated financial statements.

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

Consolidated Statements of Cash Flows

Years ended December 31,		**2017**		2016
Cash flows from operating activities				
Change in members' equity	**$**	**(452,365)**	$	1,571,491
Adjustments to reconcile change in members' equity to net cash (used in) provided by operating activities:				
Depreciation and amortization		**8,144,276**		8,082,485
Amortization of tenant commissions		**658,629**		580,254
Unrealized and realized gains on investments		**(138,562)**		(90,343)
Loss (gain) on asset disposal		**54,499**		(1,689)
(Increase) decrease in assets				
Accounts receivable		**(2,996,864)**		85,003
Receivables from trusts		**(8,774,555)**		(2,093,998)
Other assets		**(2,920,367)**		(2,552,771)
(Decrease) increase in liabilities				
Accounts payable and accrued liabilities and accrued employee expenses		**(3,051,929)**		484,449
Deferred revenue		**10,194,451**		7,109,840
Cooperative Research Network Fund		**1,290,141**		(1,947,957)
Other liabilities		**(444,552)**		(1,360,668)
ELCO life insurance reserves		**(24,677)**		(18,125)
Postretirement benefit obligations other than pensions		**(1,852,119)**		(1,023,684)
Net cash (used in) provided by operating activities		**(313,994)**		8,824,287
Cash flows from investing activities				
Purchases of investments		**(5,088,505)**		(7,800,020)
Sale of investments		**3,000,000**		460,000
Purchases of property and equipment		**(9,596,514)**		(9,068,996)
Net cash used in investing activities		**(11,685,019)**		(16,409,016)
Net decrease in cash and cash equivalents		**(11,999,013)**		(7,584,729)
Cash and cash equivalents, beginning of year		**41,536,287**		49,121,016
Cash and cash equivalents, end of year	**$**	**29,537,274**	$	41,536,287
Supplemental Disclosures of Cash Flow Information				
Income taxes paid during the year	**$**	**1,340,000**	$	2,066,000

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Nature of Operations

National Rural Electric Cooperative Association (NRECA) is a non-profit membership organization incorporated under the laws of the District of Columbia to provide various services to and representation for its members. Members of NRECA are organizations that furnish electric services to predominantly rural areas, or organizations that engage in activities closely related to the furnishing of rural electric services.

NRECA's wholly-owned subsidiaries include Electric Cooperative Life Insurance Company (ELCO) and its wholly-owned subsidiary, NRECA United, Inc. (United), which is the holding company for the following for-profit subsidiaries: Cooperative Benefit Administrators, Inc. (CBA), Cooperating Energy Services, Inc. (CES), Cooperative Insurance Services, Inc. (CIS), and RE Investment Corporation (REI) and its wholly-owned subsidiary, RE Advisers Corporation (REA). The consolidated financial statements also incorporate the assets, liabilities, revenue and expenses of NRECA's controlled affiliated organizations, which include NRECA International Foundation (Foundation), NRECA Wood Quality Control, Inc. (WQC), Fundacion Energetica Boliviana (FEB), NRECA International (International) and its wholly-owned subsidiary, NRECA Electricity for Progress, LLC (NEP), and the Glenn English National Cooperative Leadership Foundation, as NRECA has significant control over the major decisions affecting these entities. As of December 31, 2016, the assets, liabilities and activities of the Foundation were merged into International.

Some wholly-owned subsidiaries and controlled affiliated organizations were formed for the purposes of providing administrative, management, consulting, research, claims paying, insurance, investment management, and other services to support NRECA and its members. Other wholly-owned subsidiaries and controlled affiliated organizations were formed to support the coordination, advancement and development of rural electrification in developing countries.

Consolidation Policy

The accompanying consolidated financial statements include the accounts and operations of NRECA, its wholly-owned subsidiaries and controlled affiliated organizations (collectively, the Association). All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements do not include the net assets and activity of three multiple employer pension and benefit plans administered by the Association, including the NRECA Retirement Security Plan (the RS Plan), the NRECA 401(k) Pension Plan (the 401(k) Plan), and the NRECA Group Benefits Program (the Group Plan) (collectively, the Plans).

On January 1, 2000, NRECA isolated the operations of its Touchstone energy program, which became a separate legal entity known as Touchstone Energy Cooperatives, Inc. (TSE). TSE is a cooperative corporation under the laws of the Commonwealth of Virginia. TSE reimburses NRECA for the cost of managing and administering the Touchstone energy program, including direct costs, such as personnel salaries and fringe benefits, as well as allocable indirect costs. The accompanying consolidated financial statements do not include the accounts and operations of TSE as the criteria for consolidation are not met.

Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor imposed restrictions. Unrestricted net assets are not subject to donor-imposed stipulations and are available for general use. The Association's general fund represents their unrestricted net assets at December 31, 2017 and 2016. As of December 31, 2017 and 2016, the general fund included $4,865,085 and $4,968,086, respectively, of net assets of the Association's controlled affiliated entities that are exempt under 501(c)(3) of the Internal Revenue Code (IRC). The Association's Board-designated Political Advocacy, Communications and Education Account Fund will be used to fund future political advocacy, educational, or similar communication activities that address issues or events impacting the Association's members.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met, either by actions of the Association and/or by the passage of time. At December 31, 2017 and 2016, the Association did not report any temporarily restricted net assets due to immateriality.

Basis of Accounting

The consolidated financial statements of the Association have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Association considers all highly liquid investments with an original maturity date of three months or less and investments in money market mutual funds to be cash equivalents. The Association maintains deposits with high quality institutions in amounts that are in excess of the Federal Deposit Insurance Corporation limits of up to $250,000 per financial institution; however, the Association has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Foreign Currency Translation

In accordance with applicable government regulations, commodity payments on International's agreements with United States Department of Agriculture are usually required to be denominated in the local currency of the country where the commodity was sold, and kept in that currency until used for project purposes. As a result, the Association has financial instruments (cash and cash equivalents) subject to foreign currency exchange rate risk. In management's opinion, the foreign currency exchange rate risk at December 31, 2017 and 2016, is not deemed significant to the Association's financial position or changes in members' equity, and the Association has not historically experienced material gains or losses due to such risk.

The Association's cash and cash equivalents in foreign currency as of December 31, 2017 and 2016, in the consolidated balance sheets are translated into U.S. dollars using period-end exchange rates. International's foreign currency holdings were as follows at:

December 31,	**2017**		2016	
Foreign Currency	**Foreign Currency Balance**	**U.S. Dollar Balance**	Foreign Currency Balance	U.S. Dollar Balance
Bangladesh taka	**6,046,949**	**$ 76,241**	1,376,386	$ 17,545
Bolivia boliviano	**86,318**	**12,402**	11,026	15,952
Dominican Republic peso	**635,096**	**13,152**	639,016	13,686
Guatemala quetzal	**293,645**	**10,639**	338,677	45,024
Ethiopia Birr	**259,046**	**35,270**	252,130	11,193
Haiti gourdes	**81,153,463**	**1,262,747**	26,597,083	393,371
Philippine peso	**780,977**	**15,465**	297,814	5,992
Sudan pound	**1,278**	**57**	1,278	159
Uganda shilling	**216,437**	**65**	216,437	65
Total		**$ 1,426,038**		$ 502,987

International and its wholly-owned subsidiary, NEP, recorded a realized and unrealized foreign currency exchange net gain of $30,493 and $4,994 for the years ended December 31, 2017 and 2016, respectively, which was included in other revenue on the consolidated statements of activities.

Accounts Receivable

Accounts receivable are stated at amounts due from customers and members, net of an allowance for doubtful accounts based on management's assessment of the current status of individual accounts. Balances are written off when deemed uncollectible.

Receivables from Trusts

The Association is reimbursed by the Plans for administrative and information technology expenses, as well as the payment of related direct expenses the Association incurs as administrator of the Plans.

Investments

Investments, which include National Rural Utilities Cooperative Finance Corporation (CFC) capital term certificates, mutual funds, corporate bonds, and certificates of deposit, are reported at fair market value. All interest, dividends, and realized and unrealized gains and losses on investments are reported as other revenue in the consolidated statements of activities.

Investment Valuation

Financial instruments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See note 5 for discussion of fair value measurements.

Concentrations of Risk

Financial instruments that potentially subject the Association to significant concentrations of credit risk consist primarily of cash and cash equivalents, accounts and other receivables, and investments. Concentrations of credit risk with respect to accounts and other receivables are limited due to the majority of receivables being due from a large number of members over a wide geographic area and the Plans. It is the Association's practice to place its investments in CFC capital term certificates and mutual funds with various investment institutions with high credit ratings. The Association has not experienced any credit losses on its cash and cash equivalents, accounts and other receivables, or investments.

Property and Equipment

Property and equipment, including significant improvements, are stated at cost less accumulated depreciation and amortization. All costs for property and equipment greater than $2,000 and all costs for leasehold improvements greater than $10,000 with a useful life of more than 1 year when acquired are capitalized. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets (less salvage value), which are 40 years for buildings, the lesser of the life of the asset or the lease term for leasehold improvements, a range of 3 to 7 years for furniture, fixtures, and equipment, and a range of 3 to 5 years for software. Upon disposal of depreciable property, the appropriate property accounts are reduced by the costs and related accumulated depreciation and amortization. Any resulting gains and losses are reflected in the consolidated statements of activities.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell. The Association had no impairments of long-lived assets during 2017 or 2016.

ELCO Life Insurance Reserves

ELCO life insurance reserves are liabilities of the Association's wholly-owned subsidiary, ELCO, a domestic life and disability reinsurer, and relate to certain insurance policies issued to employees and members of cooperatives who are members of the Association. The life insurance reserves are developed using actuarial assumptions, which comply with policy provisions and meet the requirements of the applicable insurance laws.

Postretirement Benefit Obligations Other Than Pensions

The Association accounts for its postretirement benefits, which requires an employer to recognize the overfunded or underfunded status of its defined benefit postretirement plan (other than a multiemployer plan), as an asset or liability in the consolidated balance sheets and recognizes changes in that funded status in the year in which the changes occur in the consolidated statements of activities.

Significant Programs

The Association's significant programs are as follows:

General Membership

General membership programs primarily consist of the lobbying, regulatory, and communication efforts of the Association.

Fee-for-Service

Fee-for-service programs include training and conferences, consulting, *Rural Electric Magazine*, International Programs, and fees for managing the Homestead Funds.

Cooperative Research Network

Cooperative Research Network (CRN) provides information and research to members on electric sector issues impacting the affordability and reliability of electric service.

Pension & Welfare

Pension and welfare programs include administrative and other services provided to the Plans on behalf of members.

Revenue Recognition and Deferred Revenue

The Association's revenue recognition policies are outlined below. Deferred revenue represents the unearned portion of membership dues, advance payments on meetings revenue, and other revenue items discussed below applicable to future periods.

Membership Dues

Membership dues for general membership are recognized ratably as earned based on the anniversary dates of the members. CRN membership dues are recognized as revenue to the extent applicable expenses and allocable general administration charges are incurred and included in operations.

Plan Paid Administration Fees and Employer Paid Plan Administration Fees

The Association earns and recognizes plan paid administration fees and employer paid plan administration fees revenue at the time and to the extent plan administration expenses are incurred. In 2017 and 2016, the Association only received plan paid administration fees from the 401(k) Plan as reimbursement for the costs it incurred administering that Plan.

Money Management Fees

REI is the broker dealer for the Homestead Funds, Inc. (Homestead Funds), an investment company created by the Association and registered under the Investment Company Act of 1940. REI's wholly-owned subsidiary, REA, is the investment advisor for the Homestead Funds and earns money management fees monthly based upon the value of the Homestead Funds' assets under management at that time.

Education & Meetings

The Association sponsors a wide range of events and educational, informational and professional development programs, including national and regional meetings, conferences, courses, and workshops for its members. Revenue for education and meetings is recognized when the related event takes place.

International Programs

International programs revenue is derived primarily from cost reimbursable grants and contracts with the U.S. and foreign governments. Revenue is generally recognized at the time and to the extent direct and allocable indirect costs are incurred and, when applicable, fixed fees are recognized on a pro rata basis. Grant and contract costs are subject to audit by funding institutions.

Rental Income

The Association leases part of its Headquarters Building and 100% of its Investment Building to outside tenants. NRECA uses the straight-line method to recognize rent revenue evenly over the lease period. Rent revenue collected in advance is deferred and included in other assets on the consolidated balance sheets.

Contributed Services and Materials

Contributed services are reported at estimated fair value in the consolidated financial statements when those services (1) create or enhance non-financial assets or (2) require specialized skills provided by individuals possessing those skills and are services which would typically be purchased if not donated. NRECA received $131,849 and $400,777 in contributed services for the years ended December 31, 2017 and 2016, respectively, which were included in contributions on the consolidated statements of activities. International recorded contributed services valued at $792,282 for the year ended December 31, 2017, and the Foundation recorded contributed services valued at $625,352 for the year ended December 31, 2016, which were included in contributions on the consolidated statements of activities.

Donated materials and equipment are recorded at estimated fair value at the date of the gift. Donated materials and equipment are recognized as revenue or assets, or as decreases of liabilities or expenses, depending upon the nature of the benefits received. NRECA did not receive donated materials and equipment during the years ended December 31, 2017 and 2016. International received donated materials and equipment valued at $185,971 for the year ended December 31, 2017, and the Foundation received donated materials and equipment valued at $69,539 for the year ended December 31, 2016, which were included in contributions on the consolidated statements of activities.

Expenses

Expenses are recognized by the Association during the period in which they are incurred. Expenses paid in advance and not yet incurred are deferred to the applicable period.

Program and Shared Services

Program services include general membership programs benefiting all members of the Association, fee-for-service programs, including programs paid for by the members that use them and non-member programs, the CRN program, and the pension & welfare programs.

Shared services represent the supporting services of the Association and include general and administrative functions, such as the Board, Finance, and Human Resources, that benefit all the Association's activities, as well as some Information Technology and Plan investment support functions. Shared services expenses are allocated to the Association's programs using various allocation methodologies developed by management that approximate the value of the benefit received and usage.

Income Taxes

NRECA and its controlled affiliated organizations are exempt from income taxes under Sections 501(c)(6) and 501(c)(3) of the IRC. The activities of NRECA and its controlled affiliated organizations that may cause imposition of the unrelated business income tax provision of the IRC have not resulted in significant amounts of income taxes. NRECA's wholly-owned subsidiaries that are for-profit corporations are subject to both federal and state income taxes.

Deferred income taxes are provided using the liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of the changes in tax laws and rates as of the date of enactment.

The Association has adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the consolidated financial statements. Under this guidance, the Association may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated

financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. The Association has analyzed its tax positions taken on tax returns for all open tax years and has concluded that no additional provision or benefit exists and no amounts are recorded for interest or penalties. The Association is no longer subject to income tax examinations by tax authorities for years before 2014.

Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update (ASU) No 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The new standard amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions,” (b) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (c) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (d) presenting investment return net of external and direct expenses, and (e) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The new standard is effective for the Association’s financial statements for fiscal years beginning after December 15, 2017. The provisions must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this standard on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)* (ASU 2016-02), its highly-anticipated leasing standard for both lessees and lessors. Under its core principle, a lessee will recognize lease assets and liabilities on the balance sheet for all arrangements with terms longer than 12 months. Lessor accounting remains largely consistent with existing GAAP. The amendments are effective for the Association for the fiscal year-end beginning after December 15, 2019, and interim periods within the fiscal year beginning after December 15, 2020. Early adoption is permitted. Management is currently evaluating the impact of this standard on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes* (ASU 2015-17), which eliminates the guidance in Topic 740, Income Taxes, that required an entity to separate deferred tax liabilities and assets between current and noncurrent amounts in a classified balance sheet. The amendments require that all deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. Prior GAAP required that in a classified balance sheet, deferred tax liabilities and assets be separated into a current and a noncurrent amount on the basis of the classification of the related asset or liability. If deferred tax liabilities and assets did not relate to a specific asset or liability, such as a carryforward, they were classified according to the expected reversal date of the temporary difference. The amendments are effective for the Association for the fiscal year-end beginning after December 15, 2017, and for interim periods within the fiscal year beginning after December 15, 2018. Early adoption is permitted as of the beginning of any interim or annual reporting period. Entities may adopt the guidance prospectively or retrospectively.

Certain transition disclosures are required. Management is currently evaluating the impact of this standard on its consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 removes the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient under ASC 820. The guidance was effective for fiscal year-end beginning after December 15, 2016, with early adoption permitted. Management has adopted this guidance and it had no impact on NRECA's consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. The standard is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The new standard allows for early adoption for annual periods beginning after December 15, 2016. Management is currently evaluating the impact of its pending adoption on its consolidated financial statements and has not yet determined the method by which it will adopt the standard.

Reclassifications

Certain items in the December 31, 2016, consolidated financial statements have been reclassified to conform to the December 31, 2017, consolidated financial statement presentation. There was no effect on the change in net assets previously reported.

2. Accounts Receivable

Accounts receivable consisted of the following at:

December 31,		**2017**		2016
Due from members and others	**$**	**19,974,160**	$	17,624,496
Contracts receivable		**3,803,936**		3,105,238
Employee advances		**63,230**		120,513
		23,841,326		20,850,247
Less allowance for doubtful accounts		**(183,947)**		(189,732)
Total accounts receivable, net	**$**	**23,657,379**	$	20,660,515

Included in due from members and others are unbilled receivables of RS Plan employer paid plan administration fees amounting to $10,241,940 and $8,535,320 as of December 31, 2017 and 2016.

3. Receivables from Trusts

The receivables from trusts due to the Association as of December 31, 2017 and 2016, were $26,478,696 and $17,704,141, respectively. For 2017 and 2016, the Association charged the 401(k) Plan for administrative costs amounting to $20,291,012 and $20,288,304, respectively.

4. Investments

Investments consisted of the following at:

December 31,		**2017**		2016
Capital term certificates	**$**	**827,307**	$	827,307
Mutual funds		**1,485,152**		1,141,446
Certificates of deposit		**100,000**		295,235
Commercial paper		**4,956,692**		3,000,000
Corporate bonds		**1,821,479**		1,699,575
Senior secured debt securities		**3,000,000**		3,000,000
Total investments	**$**	**12,190,630**	$	9,963,563

Investment income, which is included in other revenue in the consolidated statements of activities, consisted of the following for the years ended:

Years Ended December 31,		**2017**		2016
Interest	**$**	**524,949**	$	331,775
Unrealized and realized gains (losses)		**138,562**		90,343
Total investment income	**$**	**663,511**	$	422,118

Total amounts invested with Homestead Funds, included in investments and cash and cash equivalents in the consolidated balance sheets, amounted to $13,182,125 and $10,273,311 at December 31, 2017 and 2016, respectively.

5. Fair Value Measurement

FASB ASC 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Association has the ability to access.

Level 2: Inputs based on quoted market prices of investments that are actively traded or for which certain inputs are not observable, either directly or indirectly.

Level 3: Inputs are unobservable for the asset or liability and reflect management's best estimate of what market participants would use in pricing the asset or liability at fair value.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. In determining the appropriate levels, management performs a detailed analysis of the assets and liabilities that are subject to fair value measurements. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

The estimated fair values of the Association's short-term financial instruments, including receivables and payables arising in the ordinary course of operations, approximate their individual carrying amounts due to the relatively short period of time between their origination and expected realization.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy as of:

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	$11,799,235	$ -	$ -	**$ 11,799,235**
Capital term certificates	-	-	827,307	**827,307**
Mutual funds (a)	1,485,152	-	-	**1,485,152**
Certificates of deposit	-	100,000	-	**100,000**
Commercial paper	-	4,956,692	-	**4,956,692**
Corporate bonds (a)	-	1,821,479	-	**1,821,479**
Senior secured debt securities	-	3,000,000	-	**3,000,000**
Employee/executive option plans - mutual funds:				
Short-Term Bond	26,140	-	-	**26,140**
Stock Index Fund	30,744	-	-	**30,744**
Value Fund	193,782	-	-	**193,782**
Small-Company Stock Fund	89,033	-	-	**89,033**
Guatemala Trust Fund	-	-	1,529,403	**1,529,403**
Patronage capital certificates	-	-	554,905	**554,905**
Deferred compensation fund assets - Homestead Funds:				
Daily Income Fund	1,515,900	-	-	**1,515,900**
Short-Term Government Securities	340,525	-	-	**340,525**
Short-Term Bond	1,470,148	-	-	**1,470,148**
Stock Index Fund	868,305	-	-	**868,305**
Value Fund	4,012,648	-	-	**4,012,648**
Small-Company Stock Fund	2,582,074	-	-	**2,582,074**
International Value Fund	665,774	-	-	**665,774**
Growth Fund	804,667	-	-	**804,667**
Total assets	**$ 25,884,127**	**$ 9,878,171**	**$ 2,911,615**	**$ 38,673,913**
Liabilities				
Employee/executive option plans' liabilities	$ -	$338,661	$ -	**$ 338,661**
Deferred compensation fund liabilities	12,260,041	-	-	**12,260,041**
Total liabilities	**$ 12,260,041**	**$ 338,661**	**$ -**	**$ 12,598,702**

(a) Based on its analysis of the nature and risks of these investments the Association has determined that presenting them as a single class is appropriate.

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets				
Money market funds	$ 9,401,929	$ -	$ -	**$ 9,401,929**
Capital term certificates	-	-	827,307	**827,307**
Mutual funds (a)	1,141,446	-	-	**1,141,446**
Certificates of deposit	-	295,235	-	**295,235**
Commercial paper	-	12,975,000	-	**12,975,000**
Corporate bonds (a)	-	1,699,575	-	**1,699,575**
Senior secured debt securities	-	3,000,000	-	**3,000,000**
Employee/executive option plans - mutual funds:				
Short-Term Government Securities	30,804	-	-	**30,804**
Short-Term Bond	31,729	-	-	**31,729**
Stock Index Fund	113,565	-	-	**113,565**
Value Fund	321,569	-	-	**321,569**
Small-Company Stock Fund	135,262	-	-	**135,262**
International Value Fund	21,734	-	-	**21,734**
Growth Fund	14,802	-	-	**14,802**
Guatemala Trust Fund	-	-	1,457,324	**1,457,324**
Patronage capital certificates	-	-	523,495	**523,495**
Deferred compensation fund assets - Homestead Funds:				
Daily Income Fund	592,848	-	-	**592,848**
Short-Term Government Securities	170,770	-	-	**170,770**
Short-Term Bond	2,123,402	-	-	**2,123,402**
Stock Index Fund	807,413	-	-	**807,413**
Value Fund	3,640,451	-	-	**3,640,451**
Small-Company Stock Fund	2,510,726	-	-	**2,510,726**
International Value Fund	512,038			**512,038**
Growth Fund	584,233	-	-	**584,233**
Total assets	**$ 22,154,721**	**$ 17,969,810**	**$ 2,808,126**	**$ 42,932,657**
Liabilities				
Employee/executive option plans' liabilities	$ -	$ 662,989	$ -	**$ 662,989**
Deferred compensation fund liabilities	10,941,881	-	-	**10,941,881**
Total liabilities	**$ 10,941,881**	**$ 662,989**	**$ -**	**$ 11,604,870**

(a) Based on its analysis of the nature and risks of these investments the Association has determined that presenting them as a single class is appropriate.

There were no transfers between levels during the year ended December 31, 2017 or 2016.

The balances of the Association's financial assets are classified in the consolidated balance sheets as follows:

December 31,	**2017**	2016
Money market funds (1)	**$ 11,799,235**	$ 9,401,929
Capital term certificates (2)	**827,307**	827,307
Mutual funds (2)	**1,485,152**	1,141,446
Certificates of deposit (2)	**100,000**	295,235
Commercial paper (2)/(1)	**4,956,692**	12,975,000
Corporate bonds (2)	**1,821,479**	1,699,575
Senior secured debt securities (2)	**3,000,000**	3,000,000
Employee/executive option plans - mutual funds (3)	**339,699**	669,465
Guatemala Trust Fund (3)	**1,529,403**	1,457,324
Patronage capital certificates (3)	**554,905**	523,495
Deferred compensation fund assets - mutual funds (4)	**12,260,041**	10,941,881
	$ 38,673,913	$ 42,932,657

(1) Included in cash and cash equivalents in the consolidated balance sheets
(2) Investments balance in the consolidated balance sheets
(3) Included in other assets in the consolidated balance sheets
(4) Deferred compensation fund asset balance in the consolidated balance sheets

The balances of the Association's financial liabilities are classified in the consolidated balance sheets as follows:

December 31,	**2017**	2016
Employee/executive option plans' liabilities (5)	**$ 338,661**	$ 662,989
Deferred compensation fund liabilities (6)	**12,260,041**	10,941,881
	$ 12,598,702	$ 11,604,870

(5) Included in other liabilities on the consolidated balance sheets
(6) Deferred compensation fund liability balance in the consolidated balance sheets

All items above classified as Level 1 are classified as such due to the underlying assets or liabilities being publicly traded instruments, or money market funds. The certificates of deposit, commercial paper, corporate bonds and senior secured debt securities assets and employee/executive option plans' liabilities are classified as Level 2 as there is not an active market for identical assets and liabilities. The certificates of deposit are valued at maturity value, which approximates fair value. Commercial paper, corporate bonds, and senior secured debt securities are valued by a service provider using observable market data, quoted market prices, or pricing models that use observable inputs. Employee/executive option plans' liabilities are valued at the closing prices of the corresponding assets. The capital term certificates are

classified as Level 3 as they represent unsecured, subordinated debt of a non-public entity, and are valued at par as there is no ready market from which to obtain fair value quotes. In addition, the certificates are expected to be paid in full at maturity. The Guatemala Trust Fund primarily consists of loans made to eligible Guatemalan municipalities and businesses and foreign currency holdings and is classified as Level 3 due to the lack of observable inputs corroborated by market data. The Guatemala Trust Fund value represents management's best estimate of the net realizable value of the outstanding loans and foreign currency. The patronage capital certificates are classified as Level 3. The Association receives an annual patronage capital certificate from CFC, which represents the Association's share of CFC's annual net income that CFC will redeem over a set period of time. The patronage capital certificates are valued at the discounted future cash flow the Association expects to receive.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The tables below represent the reconciliation of the Association's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as of:

December 31, 2017	**Capital Term Certificates**	**Guatemala Trust Fund**	**Patronage Capital Certificates**	**Total**
Beginning balance	$ 827,307	$ 1,457,324	$ 523,495	**$ 2,808,126**
Purchases	-	875,616	-	**875,616**
Settlements	-	(104,241)	-	**(104,241)**
Total realized and unrealized gains (losses) included in earnings	-	(699,296)	31,410	**(667,886)**
Ending balance	**$ 827,307**	**$ 1,529,403**	**$ 554,905**	**$ 2,911,615**

December 31, 2016	Capital Term Certificates	Guatemala Trust Fund	Patronage Capital Certificates	Total
Beginning balance	$ 827,307	$ 1,411,459	$ 493,863	$ 2,732,629
Purchases	-	6,189	-	6,189
Settlements	-	(66,187)	-	(66,187)
Total realized and unrealized gains included in earnings	-	105,863	29,632	135,495
Ending balance	$ 827,307	$ 1,457,324	$ 523,495	$ 2,808,126

A description of the methodologies at December 31, 2017, used for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) follows. There have been no changes in valuation methodologies used at December 31, 2017 and 2016.

Capital term certificates

The capital term certificates are valued at their original issue par value, which approximates fair value. As described previously, these certificates represent unsecured, subordinated debt of a non-public entity for which NRECA receives semiannual interest payments until their maturity in 2025.

Guatemala Trust Fund

The Guatemala Trust Fund is valued at the fair value of the foreign currency holdings and the underlying loans, as provided by the foreign bank institution, less an allowance for doubtful accounts determined by management.

Patronage capital certificates

As described previously, the patronage capital certificates represent NRECA's share of CFC's annual income that CFC will redeem over a set period of time. The Association uses a present value pricing model that discounts the future cash flow the Association will receive for each certificate to calculate fair value. The discount rate approximates the interest rate at which NRECA can borrow funds from CFC.

6. Other Assets

Other assets consisted of the following at:

December 31,	**2017**	2016
Accrued rental income	**$ 5,117,079**	$ 2,403,056
Prepaid expenses and deposits	**3,655,868**	3,787,876
Tenant commissions	**3,528,294**	3,622,294
Investment in Guatemala Trust Fund	**1,529,403**	1,457,324
Patronage capital certificates	**554,905**	523,495
Additional compensation - employee and executive option plans	**339,699**	669,465
Total other assets	**$ 14,725,248**	$ 12,463,510

7. Property and Equipment

Property and equipment consisted of the following at:

December 31,	**2017**	2016
Land	**$ 11,916,966**	$ 11,916,966
Headquarters Building and improvements	**48,817,761**	47,842,778
Investment Building and improvements	**51,166,857**	51,800,415
Lincoln Building and improvements	**8,329,899**	8,329,899
Capitol Hill house and improvements	**739,392**	739,392
Furniture, fixtures, and equipment	**24,911,846**	28,572,428
Software	**13,413,956**	11,230,744
	159,296,677	160,432,622
Less accumulated depreciation and amortization	**(68,604,491)**	(71,138,175)
Property and equipment, net	**$ 90,692,186**	$ 89,294,447

Depreciation and amortization expense amounted to $8,144,276 and $8,082,485 for the years ended December 31, 2017 and 2016, respectively.

The Association leased approximately 37% of its Headquarters Building during both years ended December 31, 2017 and 2016, to unaffiliated parties. The building and improvements costs and accumulated depreciation and amortization associated with these leases were $14,584,974 and $7,465,504, respectively, at December 31, 2017, and $14,458,790 and $7,144,173, respectively, at December 31, 2016.

The Association leases 100% of the Investment Building to unaffiliated parties. Accumulated depreciation and amortization on the Investment Building and improvements totaled $14,913,399 and $17,517,953 at December 31, 2017 and 2016, respectively.

8. Accounts Payable

Accounts payable includes trade payables and a balance due to TSE for receipts, net of expenses, collected by the Association on TSE's behalf. The balance due to TSE at December 31, 2017 and 2016, was $4,473,479 and $4,273,182, respectively. TSE charges the Association interest on the average outstanding monthly balance. Total interest expense incurred on TSE's balance for the years ended December 31, 2017 and 2016, was $53,589 and $30,867, respectively.

9. Health Reimbursement Arrangement Plan

As described further in note 13, the Association amended its postretirement plan whereby employees who retired after December 31, 2012, are allowed to participate in the Group Plan, but only if they pay 100% of the premiums. In conjunction with this change, the Association's Board of Directors approved and authorized the Association to (1) establish a Health Reimbursement Arrangement (HRA) Plan; (2) contribute on behalf of each employee employed as of December 31, 2012, with at least one year of service, an amount equal to the actuarial present value of the

Association's postretirement benefit obligation before amending the plan discounted at 4.5%; and (3) establish an irrevocable trust to hold the assets of the HRA Plan. Each participating employee is 100% vested and can access their HRA Plan account upon termination of employment. The Association established the HRA Plan and an irrevocable trust to hold the HRA Plan's assets and partially funded the plan in 2013. As of both December 31, 2017 and 2016, the amounts due to the HRA Plan totaled $7,199,848. As amended in the Plan document, the Plan will be fully funded no later than December 31, 2018.

10. Deferred Revenue

Deferred revenue consisted of the following at:

December 31,	**2017**	2016
Membership dues	**$ 18,109,305**	$ 16,655,082
Employer paid plan administration fees	**29,587,493**	22,228,253
Education & meetings	**6,335,650**	4,779,763
International programs	**5,927,750**	6,695,754
Publications	**664,944**	615,957
Other	**879,028**	334,910
Total deferred revenue	**$ 61,504,170**	$ 51,309,719

11. Cooperative Research Network Fund

The CRN Fund represents amounts provided from Association members to support research in the areas of conservation and utilization of current energy resources and development of new sources and ways to generate electrical energy.

CRN Fund activities consisted of the following for the years ended:

Cooperative Research Network

December 31,	**2017**	2016
Beginning balance	**$ 2,868,237**	$ 4,816,194
Additions, including royalties and interest earned	**9,380,031**	6,693,050
Expenditures for research activities	**(8,089,890)**	(8,641,007)
Ending balance	**$ 4,158,378**	$ 2,868,237

The Association's Board of Directors passed a resolution authorizing the Association's net margin in the general fund, amounting to $2,892,910, to be used for 2017 CRN research activities, which are not included in the expenditures above. No such authorizations were passed in 2016. The amount of the CRN Fund balance that was designated for future CRN research projects by the CRN Council was $3,099,774 at December 31, 2017. At December 31, 2016, the CRN Fund balance is fully designated for future CRN research projects.

12. Note Payable

The Association is a member of CFC, a non-profit cooperative association that provides financing to its members. The President and Vice President of the Association's Board of Directors are both members of the CFC Board of Directors. CFC is also a member of the Association and participates in various Association programs.

In 2014, the Association entered into a revolving line of credit agreement (the Agreement) with CFC to provide working capital for the Association's general operations, which expires on June 13, 2019. The Agreement is collateralized by a security agreement covering the Association's personal property and fixtures and other assets, as defined in the Agreement. Under the Agreement, the Association can borrow up to an aggregate of $20 million. As of December 31, 2017 and 2016, the Association had no outstanding notes under the Agreement.

13. Pension Plan and Other Postretirement Benefits

Substantially all employees of the Association participate in the RS Plan and the 401(k) Plan administered by the Association. The Association's member cooperatives may also participate in the RS Plan and the 401(k) Plan.

RS Plan

The RS Plan is a defined benefit, multiple employer pension plan qualified under Section 401 of the IRC and is exempt from federal income tax under Section 501(a) of the IRC. The employer identification number of the plan sponsor, NRECA, is 53-0116145 and the plan number is 333. For GAAP purposes, the RS Plan is considered a multiemployer plan. In a multiemployer plan all plan assets are available to pay benefits of any plan participant. Separate asset accounts are not maintained for participating employers and, as a result, assets contributed by one employer may be used to provide benefits to employees of other participating employers. In the RS Plan, a zone status determination is not required and, therefore, not determined, under the Pension Protection Act (PPA) of 2006. In addition, the accumulated benefit obligations and plan assets are not determined or allocated separately by individual employer. In total, the RS Plan was over 75 percent and 80 percent funded at January 1, 2017, and January 1, 2016, respectively, based on the PPA funding target and PPA actuarial value of assets on those dates. Because the provisions of the PPA do not apply to the RS Plan, funding improvement plans and surcharges are not applicable. Future contribution requirements are determined each year as part of the actuarial valuation of the plan and may change as a result of plan experience.

All employees of the Association that work a minimum of 1,000 hours per year are eligible to participate in the RS Plan after completing one year of service. Pension contributions are made equal to the amounts accrued for pension expense, including amortization of past service costs. Pension contribution expense, which is included in personnel costs in the consolidated statements of activities, for the years ended December 31, 2017 and 2016, amounted to $23,622,950 and $15,226,016, respectively. Contributions in 2017 are significantly higher than those in 2016 due to the Association electing to participate in the Voluntary Contribution Acceleration Program (VCAP) payment option offered to participating employers. The Association's 2017 VCAP payment, which was reflected in its own section on the consolidated statements of activities, amounted to $2,492,816 net of cost reimbursements from the pension and welfare programs of $4,290,489. Contributions in 2017 and 2016 represented less than 5 percent of the total contributions made to the RS Plan by all participating employers.

401(k) Plan

The 401(k) Plan is a defined contribution, multiple employer plan qualified under Section 401(k) of the IRC and is exempt from federal income tax. All employees of the Association who work a minimum of 1,000 hours per year and have completed one month of service are eligible to make contributions to the 401(k) Plan. Participants can make contributions through salary deferral subject to Internal Revenue Service maximum limitations. For 2016 and 2015, the Association made matching contributions up to 5% of each eligible participant's annual base salary. Additionally, the Association contributed a special employer base contribution of $2,000 for 2017 and 2016 if the employee completed one year of service as of December 31 of the prior year. The 401(k) Plan pension expense, which was included in personnel costs on the consolidated statements of activities, for the years ended December 31, 2017 and 2016, was $5,590,151 and $5,458,564, respectively.

Postretirement Benefits Other than Pensions

In addition to providing pension benefits, the Association provides certain health care and life insurance benefits for retired employees. Employees become eligible for these benefits at retirement after meeting minimum age and annual hours worked requirements: for employees hired December 31, 2012, or prior, and born prior to January 1, 1962, eligibility begins at age 55 with five years of service; for employees hired December 31, 2012, or prior, and born on or after January 1, 1962, eligibility begins at age 60 with ten years of service; and for employees hired after December 31, 2012, eligibility begins at age 60 with ten years of service. Benefits are provided through medical plans in which the employees are enrolled at the time of retirement. For employees who retired prior to December 31, 2012, the Association provides a flat dollar subsidy based upon years of service that the retirees can use towards the cost of their insurance. For employees who retire after December 31, 2012, the Association allows these retirees to participate in the NRECA Group Benefits Program upon retirement, but only if they pay 100% of the premium. The plan continues to be contributory, with retiree contribution levels based on years of service and whether they retired prior to or after December 31, 2012. The plan also contains other cost-sharing features, including deductibles and coinsurance. Beginning in 2015, all Medicare-eligible participants were required to obtain their own medical, prescription drug and vision coverage, with no change in subsidy.

The following table sets forth the postretirement benefits obligation at:

December 31,	**2017**	2016
Postretirement benefit obligation, beginning of year	**$ 14,284,731**	$ 15,308,415
Service cost	**395,239**	373,874
Interest cost	**431,588**	509,255
Actuarial gain	**(1,776,757)**	(920,645)
Estimated benefit cost	**(902,189)**	(986,168)
Postretirement benefits obligation, end of year	**$ 12,432,612**	$ 14,284,731

The present value of the postretirement benefit obligation was as follows at:

December 31,	**2017**	2016
Accumulated postretirement benefit obligation (APBO):		
Active participants not yet eligible	**$ 2,319,021**	$ 2,700,730
Fully eligible active participants	**1,371,658**	1,392,762
Retirees, disabled, and dependents	**8,741,933**	10,191,239
Postretirement benefit obligation	**$ 12,432,612**	$ 14,284,731

The Association's postretirement benefit obligation approximates fair value and is unfunded as of December 31, 2017 and 2016.

Components of net periodic postretirement benefit cost and other postretirement benefit related changes included in the consolidated statements of activities were as follows for the years ended:

Years Ended December 31,	**2017**	2016
Service cost	**$ 395,239**	$ 373,874
Interest cost	**431,588**	509,255
Net actuarial gain	**(1,776,757)**	(920,645)
Net periodic postretirement benefit cost and other postretirement benefit related changes	**$ (949,930)**	$ (37,516)

Amounts paid for retiree health and life insurance costs in 2017 and 2016, were $473,185 and $529,170, respectively.

The weighted-average discount rate used in calculating the postretirement liability and the discount rate used in calculating the net periodic benefit cost was 3.55% for 2017 and 3.80% for 2016. The 2017 health care cost trend rates were 7.5% for medical, decreasing annually by 0.50% or 0.25% until reaching the terminal trend rate of 5.0%, and 4.0% and 2.5% for dental and vision, respectively, for both the initial and terminal trend rates.

The Association's estimated future benefit payments to the postretirement benefit plan are as follows:

Years Ending December 31,	
2018	$ 902,144
2019	892,718
2020	868,022
2021	894,018
2022	896,931
Thereafter	4,675,503

Given the estimates included in the calculations of these accumulated benefit obligations, it is possible amounts recorded under this plan may change in the near term.

Other Plans

Certain employees of the Association have elected to have a portion of their compensation deferred. The deferred compensation, which falls within the limits authorized by Section 457 of the IRC, will be paid in the event of termination, retirement, or death of the participant. The Association has set aside funds necessary to meet all liabilities of the program. Deferred compensation funds are invested in Homestead Funds. As of December 31, 2017 and 2016, the deferred compensation fund balance amounted to $12,260,041 and $10,941,881, respectively.

The Association established the Executive Benefit Restoration Plan in 2014. Under this plan, employees whose compensation exceeds Section 401(a)(17) limitations of the IRC or whose benefit under the RS Plan exceeds Section 415 limitations of the IRC, and who are designated by the Board, and who have a pension limitation, as defined in the plan document, on their normal retirement date are eligible for benefits. Benefits are paid after attainment of normal retirement date and continue annually provided that a pension limitation exists. The benefit is forfeited in its entirety if the employee is terminated for any reason before attainment of normal retirement date. At December 31, 2017 and 2016, the pro rata actuarial present value of the benefits amounted to $74,017 and $44,726, respectively, which was included in other liabilities on the consolidated balance sheets.

REA established an Executive Benefit Restoration Plan in 2016. Under this plan, employees whose compensation exceeds Section 401(a)(17) limitations of the IRC or whose benefit under the RS Plan exceeds Section 415 limitations of the IRC, and who are designated by the Board, and who have a pension limitation, as defined in the plan document, on their normal retirement date are eligible for benefits. Benefits are paid after attainment of normal retirement date upon termination of service. At December 31, 2017 and 2016, the pro rata actuarial present value of the benefits amounted to $284,306 and $166,937, respectively, which was included in other liabilities on the consolidated balance sheets.

The Employee Additional Compensation Option Plan, created in 1999, but discontinued in 2002, was developed to provide additional compensation to certain employees who participated in the 401(k) Plan and had made the maximum pretax contribution allowable under the terms of the 401(k) Plan. Such employees could defer a portion of their salary equal to 75% of the option amount of the selected Homestead Fund. An option could not be exercised for at least one year

from the grant date. To exercise an option, employees have to pay an exercise price of 25% of the share's value at grant date, resulting in the employee paying 100% of the value of the option at grant date (75% salary deferral and 25% exercise price), which is approximately equal to the price the Association paid to purchase the underlying security at the grant date. Shares outstanding at December 31, 2017 and 2016, were 15,886 and 23,969, respectively. The market value at December 31, 2017 and 2016, included in other assets in the consolidated balance sheets, was $308,967 and $432,274, respectively. The related liability is included in other liabilities on the consolidated balance sheets. During 2017 and 2016, 8,083 shares were exercised at a market value of $154,534 and 3,308 shares were exercised at a market value of $95,871, respectively.

The Executive Additional Compensation Option Plan, created in 1998, but discontinued in 2002, was developed to provide additional compensation to certain employees, on whose behalf the Association was unable to contribute fully to the 401(k) Plan because their compensation exceeded the limits of the Section 401(a)(17) of the IRC. To exercise an option, employees must pay an exercise price of 25% of the share's value at grant date. Shares outstanding at December 31, 2017 and 2016, were 645 and 10,040, respectively. The market value at December 31, 2017 and 2016, included in other assets in the consolidated balance sheets, was $30,731 and $237,191, respectively. The related liability is included in other liabilities on the consolidated balance sheets. Shares purchased for this plan are expensed. During 2017 and 2016, 9,395 shares were exercised at a market value of $120,303 and 997 shares were exercised at a market value of $24,863, respectively.

14. Income Taxes

The Association's for-profit subsidiaries have deferred tax liabilities from unrealized gains on investments and depreciation timing differences, which are included in accounts payable and accrued liabilities in the consolidated balance sheets.

Deferred tax liabilities had the following components at:

December 31,		**2017**		2016
Depreciation deductions	**$**	**(15,999)**	$	(27,205)
Unrealized gain on investments		**(134,186)**		(158,166)
Net deferred tax liabilities	**$**	**(150,185)**	$	(185,371)

Income tax expense for the years ended December 31, 2017 and 2016, was $2,663,273 and $2,649,658, respectively, and was primarily related to the Association's for-profit subsidiaries.

Amounts paid for income taxes in 2017 and 2016, were $1,340,000 and $2,066,000, respectively.

15. Commitments and Contingencies

NRECA leases certain office space and equipment under long-term leases, the last of which expires in 2020. Certain leases contain renewal provisions and require payments of taxes, maintenance and repair costs. The Association plans to renew these leases at similar terms upon expiration.

Future minimum rental payments under operating leases having initial or remaining lease terms in excess of one year are as follows:

Years Ending December 31,		
2018	$	58,713
2019		59,077
2020		10,575
	$	128,365

Rent expense, which is included in other direct expenses on the consolidated statements of activities, was $3,012,162 and $3,180,675 for the years ended December 31, 2017 and 2016, respectively.

NRECA is also the lessor of certain office space in the Headquarters Building and the Investment Building. The last current lease of these buildings expires in 2029.

Minimum lease payments to be received under such operating leases with remaining lease terms in excess of one year are as follows:

Years Ending December 31,		
2018	$	10,294,591
2019		8,600,199
2020		8,648,134
2021		8,730,700
2022		6,793,101
Thereafter		16,797,738
	$	59,864,463

As of December 31, 2017 and 2016, prepaid rent from tenants amounted to $5,117,079 and $2,403,056, respectively, which was included in other assets on the consolidated balance sheets.

NRECA could be subject to various claims, suits and complaints arising in the ordinary course of business. Although the outcome of such legal matters cannot be determined, it is the opinion of management that the final resolution of such matters will not have a materially adverse effect on the consolidated balance sheets, members' equity, or cash flows as of December 31, 2017.

During 2014, NRECA discovered that approximately 100 participants in the RS Plan were distributed benefit payments totaling approximately $7.5 million from 2004 through 2014 that exceeded the Internal Revenue Code § 415(b) limitation. NRECA filed a plan to correct these errors in December 2014 through the IRS's Employee Plans Compliance Resolution System program under the Voluntary Correction Program and paid a $25,000 compliance fee. As plan administrator, NRECA is responsible for ensuring the RS Plan is made whole and also agreed to make certain payments to the affected participants to settle this error. NRECA estimated it would

cost $14,607,000 to settle this error with the RS Plan and the affected participants. This cost was accrued and was reflected as other liabilities in the consolidated balance sheets as of December 31, 2014, and was stated separately under direct expenses on the consolidated statements of activities for the year ended December 31, 2014. This liability amounted to $200,000 and $814,872 and was included in other liabilities on the consolidated balance sheets as of December 31, 2017 and 2016, respectively. Employer paid plan administration fees already collected for the RS Plan, as well as fees that will be billed and collected in the future, have funded these liabilities.

The Association entered into an agreement in 2012, whereby it agreed to reimburse the 401(k) Plan $4,545,455 in previously charged plan administrative expenses. This reimbursement was made in December 2011 prior to the agreement being executed. The Association also committed to discounting future administrative fees it charges to the Plans in the amount of $22,727,272. Employer paid plan administration fees already collected, which are included in deferred revenue on the consolidated balance sheets, as well as fees that will be billed to and collected from participating employers in the future, will fund the future discounts to the Plans. In 2016, a discount of $1,818,182 reduced plan administrative expenses billed to the 401(k) Plan, which satisfied the discount for that plan. In both 2017 and 2016, NRECA met its discounts of $1,418,182 and $1,309,090 to the Group Plan and RS Plan, respectively, as NRECA did not bill these plans for any permissible expenses it incurred. As of December 31, 2016, the remaining discount for the Group Plan and RS Plan amounted to $2,727,272. As of December 31, 2017, the discount for the Group Plan and RS Plan was satisfied.

16. Subsequent Events

NRECA has evaluated subsequent events through June 5, 2018, the date the consolidated financial statements were available to be issued. Except for the item disclosed in the following paragraph, there were no events that required recognition in or disclosure to the consolidated financial statements.

On May 18, 2018, NRECA decided it would collect the postretirement receivables due from the Group Plan and RS Plan in the amounts of $5,691,907 and $1,552,311, respectively, from each Plan's participating employers through employer paid plan administration fees. These postretirement receivables are included in receivables from trusts on the consolidated balance sheets. This transaction will not have a financial impact to the Association as it is only a change in funding source.

Supplementary Information

Independent Auditors' Report on Supplementary Information

To the Board of Directors of
National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations
Arlington, Virginia

We have audited the consolidated financial statements of the **National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations** of and for the years ended December 31, 2017 and 2016, and have issued an unmodified opinion on those consolidated financial statements which appears on page 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 5, 2018

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

General Fund Schedule of Activities – General Membership Programs

Years Ended December 31,		**2017**		2016
General membership programs:				
Revenue				
Membership dues	**$**	**30,356,326**	$	30,014,109
Other general membership program revenue		**2,940,452**		2,663,733
Total revenue		**33,296,778**		32,677,842
Expenses				
Government Relations		**17,245,823**		17,650,741
Communications & Marketing		**6,889,633**		6,977,867
Business & Technology Strategies		**5,905,887**		5,782,947
Cooperative.com & Website		**2,975,152**		2,746,546
Education & Training		**1,929,957**		1,826,276
Member Counsel		**1,753,683**		1,709,469
Safety & Advisory Services		**1,017,300**		982,150
CEO's special projects		**776,268**		1,818,270
IT Prioritization		**953,801**		904,560
Cooperative Research Network Fund contribution		**2,892,910**		-
Other		**4,645,903**		5,389,231
Total Expenses		**46,986,317**		45,788,057
Net loss - general membership programs	**$**	**(13,689,539)**	**$**	**(13,110,215)**

See accompanying independent auditors' report and notes to consolidated financial statements.

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

General Fund Schedule of Activities – Fee-for-Service Programs

Years Ended December 31,	**2017**	2016
Member fee-for-service programs:		
Training & Conferences		
Revenue	**$ 8,748,650**	$ 9,066,083
Expense	**9,023,761**	9,447,678
Net loss	**(275,111)**	(381,595)
Annual Meeting		
Revenue	**2,457,448**	2,728,867
Expense	**2,510,373**	2,476,652
Net (loss) margin	**(52,925)**	252,215
TechAdvantage Expo		
Revenue	**1,819,800**	1,833,400
Expense	**598,593**	796,469
Net margin	**1,221,207**	1,036,931
Regional Meeting		
Revenue	**1,378,143**	1,363,914
Expense	**1,190,197**	1,123,241
Net margin	**187,946**	240,673
RE Magazine		
Revenue	**2,773,681**	2,620,481
Expense	**2,460,654**	2,303,582
Net margin	**313,027**	316,899
Associate Member & Merchandise		
Revenue	**2,692,943**	2,766,453
Expense	**2,087,639**	2,064,453
Net loss	**605,304**	702,000
Consulting		
Revenue	**3,645,151**	3,619,512
Expense	**3,611,951**	3,569,017
Net margin	**33,200**	50,495
I&FS Fee-For-Service		
Revenue	**2,153,495**	2,007,560
Expense	**1,999,805**	1,866,339
Net margin	**153,690**	141,221
Wood Quality Control		
Revenue	**2,242,260**	1,975,390
Expense	**2,089,125**	1,882,822
Net margin	**153,135**	92,568
Net margin - member fee-for-service programs	**$ 2,339,473**	**$ 2,451,407**

See accompanying independent auditors' report and notes to consolidated financial statements.

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

General Fund Schedule of Activities – Fee-for-Service Programs

Years Ended December 31,	**2017**	2016
Non-member fee-for-service programs:		
Buildings		
Revenue	**$ 13,387,448**	$ 13,700,397
Expense	**3,474,138**	3,419,153
Net margin	**9,913,310**	10,281,244
REI & REA		
Revenue	**23,978,463**	22,676,941
Expense	**19,642,118**	19,111,026
Net margin	**4,336,345**	3,565,915
NRECA International		
Revenue	**16,017,342**	14,851,946
Expense	**16,253,564**	14,293,949
Net (loss) margin	**(236,222)**	557,997
International Foundation		
Revenue	**-**	1,880,506
Expense	**-**	2,213,446
Net loss	**-**	(332,940)
Glenn English Foundation		
Revenue	**52,134**	33,365
Expense	**29,400**	20,055
Net margin	**22,734**	13,310
ELCO		
Revenue	**74,675**	67,316
Expense	**77,902**	55,403
Net (loss) margin	**(3,227)**	11,913
MultiSpeak®		
Revenue	**293,681**	279,467
Expense	**483,739**	520,163
Net loss	**(190,058)**	(240,696)
Net margin - non-member fee-for-service programs	**$ 13,842,882**	**$ 13,856,743**

See accompanying independent auditors' report and notes to consolidated financial statements.

National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations

General Fund Schedule of Activities – Cost Reimbursable Programs

Years Ended December 31,		**2017**		2016
Cost reimbursable programs:				
Pension & Welfare Administrative Services				
Reimbursement	**$**	**112,111,451**	$	105,640,164
Expense		**112,111,451**		105,640,164
Net margin		**-**		-
Touchstone Energy Cooperative, Inc.				
Reimbursed Costs		**10,538,157**		10,381,262
Expense		**10,538,157**		10,381,262
Net margin		**-**		-
Cooperative Research Network				
Revenue		**10,982,798**		8,641,007
Expense		**10,982,798**		8,641,007
Net margin		**-**		-
Net margin - cost reimbursable programs	**$**	**-**	**$**	**-**
Net operating margin before RS Plan Voluntary Contribution Acceleration Program (VCAP) payment		**2,492,816**		3,197,935
RS Plan VCAP payment				
Contribution payment		**6,949,000**		
Cost reimbursement		**(4,456,184)**		
Total RS Plan VCAP payment		**2,492,816**		-
Net operating margin - General Fund	**$**	**-**	**$**	**3,197,935**

See accompanying independent auditors' report and notes to consolidated financial statements.

**NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION,
ITS WHOLLY-OWNED SUBSIDIARIES AND
CONTROLLED AFFILIATED ORGANIZATIONS**

**INDEPENDENT AUDITORS' REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS AND THE UNIFORM
GUIDANCE AND SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS**

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
National Rural Electric Cooperative Association, its Wholly-Owned
Subsidiaries and Controlled Affiliated Organizations
Arlington, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations (the Association), which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 5, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Association's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Association's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Association's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 5, 2018

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM, REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
National Rural Electric Cooperative Association, its Wholly-Owned
Subsidiaries and Controlled Affiliated Organizations
Arlington, Virginia

Report on Compliance for Each Major Federal Program

We have audited National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations' (the Association) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Association's major federal programs for the year ended December 31, 2017. The Association's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Association's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Association's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Association's compliance.

Opinion on Each Major Federal Program

In our opinion, the Association complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

Report on Internal Control over Compliance

Management of the Association is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Association's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Board of Directors
National Rural Electric Cooperative Association, its Wholly-Owned
Subsidiaries and Controlled Affiliated Organizations

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Association as of and for the year ended December 31, 2017, and have issued our report thereon dated June 5, 2018, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Arlington, Virginia
June 5, 2018

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, ITS WHOLLY-OWNED SUBSIDIARIES AND CONTROLLED AFFILIATED ORGANIZATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Grant/ Contract Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Agency for International Development				
Pilot Project for Sustainable Electricity Distribution	98.001	AID-521-C-13-00007	$ -	$ 5,098,944
Subtotal - 98.001			-	5,098,944
Cooperative Development Program	98.002	AID-OAA-A-10-00028	-	1,340,955
Philippines Electric Cooperative Procurement Best Practices	98.002	AID-OAA-A-13-00020	-	2,229,931
Subtotal - 98.002			-	3,570,886
Total U.S. Agency for International Development			-	8,669,830
U.S. Department of Energy				
Solar Utility Network Deployment Acceleration	81.087	DE-EE0006333	-	904,249
Passthrough from Missouri University of Science and Technology: The MidAmerica Regional Microgrid Education and Training Consortium	81.087	DE-EE0006341	-	130,818
Passthrough from Carnegie Mellon University: Agent Based Coordination Scheme for Photovoltaic Integration	81.087	DE-EE0007165	-	160,444
Subtotal - 81.087			-	1,195,511
Passthrough from Virginia Tech Solar Adoption Modeling	81.117	DE-EE0007660	-	37,590
Subtotal - 81.117			-	37,590
Improving the Cyber and Physical Security Posture of the Electric Sector	81.122	DE-OE0000807	-	1,510,704
REACT	81.122	DE-OE0000828	-	400,003
Subtotal - 81.122			-	1,910,707
GRIDBALLAST - Autonomous Load Control for Grid Resilience	81.135	DE-AR0000705	-	318,801
Data Repository for Power System Open Models with Evolving Resources	81.135	DE-AR0000712	-	49,543
Sustainable Data Evolution Technology For Power Grid Optimization	81.135	DE-AR0000710	-	224,979
Passthrough from ProsumerGrid: Distribution System Operator Simulation Studio	81.135	DE-AR0000669	-	98,556
Subtotal - 81.135			-	691,879
Pass through from Pacific Norwest National Lab (Battelle)	N/A	DE-AC05-76RL01830	-	42,762
Pass through from Los Alamos National Security, LLC: Optimal Resiliency Model	N/A	DE-AC52-06NA25396	-	74,411
Subtotal - NA			-	117,173
Total U.S. Department of Energy			**-**	**3,952,860**
U.S. Air Force / Defense Advanced Research Projects Agency				
Rapid Attack Detection, Isolation and Characterization System: GRIDSTATE	12.300	FA8750-16-2-0207	1,851,667	2,000,398
Subtotal - 12.300			1,851,667	2,000,398
Total U.S. Air Force / Defense Advanced Research Projects Agency			**1,851,667**	**2,000,398**
Total expenditures of federal awards			**$ 1,851,667**	**$ 14,623,088**

See accompanying Notes to Schedule of Expenditures of Federal Awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2017

NOTE 1 BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the National Rural Electric Cooperative Association, its Wholly-Owned Subsidiaries and Controlled Affiliated Organizations (the Association) under programs of the federal government for the year ended December 31, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Association, it is not intended to and does not present the financial position, changes in net assets, and cash flows of the Association.

The Schedule has been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America, and is consistent with the Association's consolidated financial statements. Such expenditures are recognized following either the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 MAJOR PROGRAM

The Association receives federal awards to perform international electrification in developing countries and research and development that advances the rural electric cooperative community. The Schedule reflects cost share funded by program income and excludes cost share provided as in-kind donated services and material.

NOTE 3 FACILITIES AND ADMINISTRATION COSTS

The Association did not elect to use the 10% de minimis indirect cost rate. The indirect cost rates were calculated in accordance with the Negotiated Indirect Cost Rate Agreement that the Association entered into with the U.S. Agency for International Development, dated November 27, 2015, except for the NRECA Overhead Rate and the NRECA General and Administrative Rate, which were updated to reflect the Association's changing business.

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, ITS WHOLLY-OWNED SUBSIDIARIES AND CONTROLLED AFFILIATED ORGANIZATIONS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED DECEMBER 31, 2017

SECTION I – SUMMARY OF INDEPENDENT AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness (es) identified?	____	Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weaknesses	____	Yes	X	None reported
Noncompliance material to financial statements noted?	____	Yes	X	No

Federal Awards

Internal control over major programs:

Material weakness (es) identified?	____	Yes	X	No
Significant deficiency(ies) identified that are not considered to be material weaknesses	____	Yes	X	None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Grant Guidance	____	Yes	X	No

Identification of Major Programs

Name of Federal Program or Cluster	CFDA Number
Improving the Cyber and Physical Security Posture of the Electric Sector	81.122
REACT	81.122
Cooperative Development Program	98.002
Philippines Electric Cooperative Procurement Best Practices	98.002

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee?	X	Yes	____	No

SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

SECTION III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

Our audit did not disclose any matters required to be reported in accordance with 2 CFR 200.516(a).

SCHEDULE OF PRIOR YEAR FINDINGS

YEAR ENDED DECEMBER 31, 2017

SECTION IV – PRIOR YEAR FINDINGS

None Noted